

Budget Message from State Treasurer Bill Lockyer

Dec. 14, 2007

Greetings.

The tooth fairy still hasn't come. And now the State faces a budget deficit of \$14 billion. As we work to climb out of the hole, I wanted to share a few thoughts as California's banker.

Think long-term -- Policymakers should not just solve the immediate crisis. They should seize the moment as an opportunity to lay the foundation for a stable fiscal future for California. That requires thinking, planning and acting long-term. It's the only way to get out of this mess, and stay out of it. Californians are just plain tired of a government that can't do any better than lurch from one crisis to the next.

Make "post-partisanship" mean something -- If we want to solve a problem this big, and move California to firm fiscal ground, ideological purity will have to get diluted. We will do a disservice to the people if we take options off the table before we even start. No, we can't just "tax and spend" (to coin a phrase). But we can't just "cut and run" (there's another) either. We have to look at how we raise revenues and how we spend them. We have to consider more carefully the programs we support with the general fund. We have to do a better job of incorporating infrastructure investment in the budget planning process, and develop new ways of financing that investment to save taxpayer dollars.

Penny-wise, fiscally foolish -- If someone told me I could save \$1,000 every year on my utility bills if I spent \$500 now to make my home more energy efficient, I'd jump at the chance. I think most homeowners would. Much of the time, unfortunately, that's not how the green-eyeshade folks think over at the Department of Finance. They just want to know how much it's going to cost now. We need to move away from the first-year fiscal mentality to more of a life-cycle approach. That's another way of saying we need to think long-term.

Enough with the gimmicks -- We've tried fiscal gimmickry. It's painfully obvious that doesn't work. We probably could "balance" the budget by borrowing more money, suspending laws and cooking the books. But while those moves might make us feel better today, they make us worse off in the long run. We need real solutions, not tricks.

Here are some fiscal and capital investment issues my office raised in the 2007 State of California Debt Affordability Report (issued Oct. 1):

Revenues -- Broadening the sales tax base to include certain services warrants consideration as an option to increase revenue stability. Depending on which services were covered, taking that step could generate tens of billions of dollars annually,

according to data from the Franchise Tax Board. Suspending all corporate tax incentive credits with carryovers would bring in an extra \$1 billion per year.

Expenditures -- If the state adopted reforms to reduce California's prison recidivism rate to the national average, taxpayers would save up to \$1 billion annually. The state could realize a net annual savings of hundreds of millions of dollars if we made the needed investment to make government buildings greener and more energy-efficient. We could realize significant, ongoing savings if we ended general fund support for transportation projects. In fiscal 2008-09, general fund support for transportation is projected at \$1.61 billion. The report recommends creating a new statewide transportation financing agency which would work with local governments to develop non-general fund ways to pay for road and transit projects.

Debt service -- New approaches to the way we structure the general obligation (GO) bonds we sell to finance infrastructure projects could substantially reduce debt service payments from the general fund. For example, one model my office is examining could save the general fund close to \$1 billion annually, compared to the current approach. We could reduce our interest payments by hundreds of millions of dollars if we sold GO bonds backed by a specific revenue stream from the general fund. That's because bonds retired with a dedicated revenue stream, and additionally secured by the state's full faith and credit, earn higher credit ratings.

Happy holidays,

Bill